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June 14, 2018

To: The Chair and Members of the Commission

From: Pamela Knotts, Regulatory Policy Administrator *PK*

Subject: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR APPROVAL OF THE 2018 PROGRAM FOR THE PROCUREMENT OF SOLAR RENEWABLE ENERGY CREDITS (FILED APRIL 16, 2018, AMENDED JUNE 14, 2018) – PSC Docket No. 18-0224

Background:

In 2007, the Governor approved and signed into law the Renewable Energy Portfolio Standards Act, 26 *Del. C.* §§ 351-364, (“REPSA”), the purpose of which was to “establish a market for electricity from [renewable energy resources] in Delaware, and lower the cost to consumers of electricity from these resources.” 26 *Del. C.* § 351(c). REPSA requires retail electricity suppliers,¹ such as Delmarva Power & Light Company (“Delmarva”), to purchase energy from Eligible Energy Resources (as that term is defined in REPSA) to meet a portion of their annual retail load. For the 2018 compliance year (beginning June 1, 2018), retail electricity suppliers must purchase as least 17.5% of their retail load in Delaware from renewable resources, with solar accounting for 1.75%. REPSA also required the formation of the Renewable Energy Taskforce (“Taskforce”) for the purpose of “making recommendations about the establishment of trading mechanisms and other structures to support the growth of renewable energy markets in Delaware.” 26 *Del. C.* § 360(d). This procurement is subsequent to the Delaware Public Service Commission’s (the “Commission”) approval of the 2012 Pilot Program (“Pilot Program”)², the 2013 Solar Renewable Energy Credit³ (“SREC”) Procurement Program (“2013 Program”)⁴, the 2014 SREC Procurement (“2014 Program”)⁵, the 2015 SREC Procurement (“2015 Program”)⁶, the 2016 Program⁷ (“2016

¹ This was changed to require that only Commission-regulated electric companies be responsible for the RPS obligation beginning in compliance year 2012 and thereafter by SB No. 124 signed on July 7, 2011.

² The Commission approved the Pilot Program via Order Nos. 8075 and 8093 in PSC Docket No. 11-399.

³ “Solar Renewable Energy Credit” as defined in 26 *Del. C.* § 352(25).

⁴ The Commission approved the 2013 Program via Order Nos. 8281 and 8450 in PSC Docket No. 12-526.

⁵ The Commission approved the 2014 Program via Order Nos. 8551 and 8629 in PSC Docket No. 14-41.

⁶ The Commission approved the 2015 Program via Order Nos. 8717 and 8764 in PSC Docket No. 14-0560.

⁷ The Commission approved the 2016 Program via Order Nos. 8884 and 8890 in PSC Docket No. 15-1472.

Program”), and the 2017 Program (“2017 Program”⁸, collectively the “SREC Programs”) per the Taskforce’s recommendations.

The 2018 Program

On April 16, 2018, Delmarva filed an application (“Application”) with the Commission for approval of the 2018 Program for the Procurement of Solar Renewable Energy Credits (the “2018 Program”) and requested expedited treatment of the docket. The Application offered the Company’s Report in Support of its Application (Exhibit “C”). On June 14, 2018, Delmarva filed an amended Application⁹ (“Amended Application”) correcting certain statements in Exhibit “A”, the Program Outline. Delmarva stated “These discrepancies do not change the substance of the Program as described in the Application...”

Beginning in the summer of 2017 and through the spring of 2018, the Taskforce met on a regular basis to develop the 2018 Program, and all meetings were open to the public. Throughout the development of the 2018 Program, the Taskforce reviewed: (i) the past issues raised by the Delaware Division of the Public Advocate (“DPA”) which included controlling costs for consumers, allowing utility-scale participation in the auction, ameliorating historically higher prices for Tier 2 small commercial installations, addressing the treatment of residential solar leasing programs, and changing the \$35 guaranteed minimum price for SRECs in the last 10 years; (ii) stakeholder feedback; and (iii) the results of the 2017 Program. In December 2017,¹⁰ ten of the Taskforce members voted to approve the 2018 Program, with the DPA representative abstaining. The DPA’s reason for the abstention was not the design of the 2018 Program but the uncertainty concerning the Commission’s proposed rules addressing the cost caps.

The 2018 Program contains a number of changes from the 2017 Program. The following table redlines the most significant Tier changes:

	New Systems ¹¹
N-1	Increase breakpoint from 25 kW to 50 kW and must be owned by owner of the property
N-2	Increase breakpoint from 200 kW to 500 kW
N-3	Must be sited in Delaware
N-4	Separated system size and location - in-state systems greater than 2 MW and out-of-state systems greater than 500 kW
N-5 Tier added	Less than or equal to 50 kW leased systems or owned by a third party

⁸ The Commission approved the 2017 Program via Order Nos. 9050 and 9116 in PSC Docket No. 17-0154.

⁹ Delmarva noticed two typographical errors in the Program Outline, which is attached to the Application as Exhibit A. Per Delmarva, “the charts listing the tiers of solar generators on page 10 of the Application and page 11 of the Program Outline should be identical, but there are two slight discrepancies in the version that appears in the Program Outline. First, the version in the Program Outline is missing the qualifier “Customer-Owned” for Tier E-1 (though this should be implied by the “Not Customer-Owned” in Tier E-4 for systems of the same size and is referenced in footnote 15). Second, the description of Tier E-3 is incorrect in the Program Outline – it should be “Systems greater than 2MW,” as stated in the Application. These discrepancies do not change the substance of the Program as described in the Application...”

¹⁰ Taskforce Meeting Minutes for Monday, December 4, 2017 at 3.

¹¹ Eligible New Systems (with the prefix “N-”) are systems with final interconnection approval after June 10, 2016.

	Existing Systems ¹²
E-1	Increase breakpoint from 25 kW to 50 kW must be owned by the owner of the property
E-2	Greater than 50 kW but less than equal to 2 MW
E-3	No Change (greater than 2 MW)
E-4	50 kW or less and leased or owned by a third party

Additional 2018 Program features include: (i) in Tier N-2 the Sustainable Energy Utility (“SEU”) will not award more than 50% of SRECs to a single owner, unless N-2 is undersubscribed due to this limitation; (ii) the SREC price in last 10 years of the contract will be the lower of the bid price or \$20.00, which is a decrease from \$35.00 used in the past several auctions, the SREC price for the first 10 years will be the bid price; (iii) the first 10,000 SRECs will only be procured from new systems in Tiers N-1, N-2, and N-3. If any Tier within the first 10,000 SRECs is undersubscribed because of insufficient bids, that Tier will first be filled by the lowest-price losing bids remaining from Tier N-1, N-2, or N-3. If Tier N-1, N-2, or N-3 still remains undersubscribed, the SEU will have the option to use its SRECs banked in accordance with 26 *Del. C.* § 360(c) to fill the undersubscribed Tier at the lowest winning bid price in the applicable undersubscribed Tier. If the SEU declines to exercise its option or such Tier remains undersubscribed after the SEU exercises its option, bids from Tiers N-4, N-5, and E-1 through E-4 can be selected to supply those SRECs; and (iv) Delmarva is still permitted to reject bids due to price.

Delmarva proposes to procure 10,000 SRECs from the tiers designated above and 5,000 additional SRECs from Tiers N-5, E-1, E-2, and E-4. Thereafter, Delmarva can fill any remaining undersubscribed Tiers with the lowest bid from any Tier and may procure up to a maximum of 5,000 additional SRECs through the auction, for a maximum of 20,000 SRECs. In comparison, for the 2017 Program, Delmarva could procure 10,000 SRECs from the tiers and up to 10,000 additional SRECs through the auction.

The Taskforce approved the continued involvement of the SEU in the 2018 Program. For cost recovery purposes, it remains Delmarva’s obligation to show that it could not have performed the functions/tasks of the SEU and its contract administrator at a lower overall cost when Delmarva submits its application for cost recovery.

Staff Review of the Proposed 2018 SREC Procurement Program:

The period for written comment and intervention established by public notice ended on June 5;¹³ the DPA filed its Statutory Notice of Intervention; and DNREC timely filed its petition for leave to intervene. No written comments were received.

Staff notes that the Taskforce entertained much discussion on the details of the 2018 Program. The Taskforce is charged with establishing balanced market mechanisms for SREC trading, minimizing the cost for complying based upon deliberate and factual analysis and study, establishing mechanisms to maximize in-state renewable energy generation, and ensuring that

¹² Eligible Existing Systems (with the prefix “E-”) are systems with final interconnection approval on or before June 10, 2016.

¹³ See 26 *Del. Admin. C.* § 1001.1.9.1.

residential, commercial, and utility scale photovoltaic systems of various sizes are financially viable and cost-effective investments in Delaware.¹⁴ Many of the changes to the 2018 Program spoke to those charges. Staff found Delmarva's Application to be consistent with the Taskforce's recommendations.

In Delmarva's 2016 Integrated Resource Plan ("IRP")¹⁵, it stated that "SREC supply eligible to meet Delmarva's solar requirement has seen a sharp increase recently, due to significant in-state distributed solar development and out-of-state development of projects that qualify to sell in Delaware... As a result, reported pricing for Delaware SRECs has remained relatively constant in the \$30.00/MWh to \$40.00/MWh range despite significant growth in demand under RPS.... Despite the significant increase in demand for SRECs over the forecast period, Pace Global projects relatively flat to declining prices for SRECs in Delaware due to ample current supply levels, declining installed costs for solar and the expected recovery of power markets."¹⁶ The overall weighted average solicitation price for the 2017 Program was \$21.26. While the 2018 Program allows Delmarva to reject bids above a certain price, as have past auctions, and to procure up to 10,000 additional SRECs, Staff's expectation would be that the Company would continue to be vigilant in consideration of market conditions and prices when accepting offered bids.

Recommendation:

Staff supports Delmarva's Amended Application for the 2018 Program for the following reasons: (1) it is in compliance with the Taskforce's recommendations, the Delaware Code, the Commission Regulations, prior orders, and applicable law; (2) it is in the public interest; (3) the Taskforce meetings were held in a public forum; and (4) this hearing was properly noticed along with the public comment and intervention period to allow intervenors to participate. Staff supports the changes to the procurement process as included in the Amended Application and respectfully recommends that the Commission approve the application.

¹⁴ 26 Del. C. § 360(d).

¹⁵ Docket No. 16-1087 filed November 30, 2016.

¹⁶ Delmarva Power & Light Company 2016 Integrated Resource Plan, November 30, 2016, Section 9 at 3-5.